Sunfire Energy Corporation

1994 Annual Report

CORPORATE PROFILE

Sunfire Energy Corporation is an Alberta based company engaged in the exploration for and production of crude oil and natural gas.

The Company presently confines its exploration and development activities to a limited number of areas in Alberta where it has developed expertise. If possible, the Company maintains operatorship and markets its oil and gas production in order to maximize cash flow.

The Company's primary objective is to build shareholder value through the discovery of crude oil and natural gas reserves.

The Company is headquartered in Calgary and its common shares are listed on The Alberta Stock Exchange under the trading symbol SFE.A.

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ANNUAL GENERAL MEETING

Shareholders are invited to attend the Annual General Meeting of the Corporation which will be held in the Barclay Room at The Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta on Monday, January 23, 1995 at 2:30 p.m.

HIGHLIGHTS

FINANCIAL ($)

YEAR ENDED JULY 31	1994	1993
Gross Revenue, less royalties	1,290,233	1,019,126
Cash flow from Operations	840,819	603,039
Per Share *	0.24	0.19
Net income	305,028	237,789
Per Share *	0.09	0.08
Capital Expenditures	1,331,000	597,928
Working Capital	499,158	(2,455)
Shareholders' Equity	5,084,536	3,672,494
Number of Common Shares Outstanding	4,278,090	3,116,590

* Based upon the weighted average number of common shares outstanding during the fiscal year, namely 3,479,360.

OPERATIONS

YEARS ENDED JULY 31	1994	1993
Production		
Crude Oil (Bbls/d)	38	48
Natural Gas (Mcf/d)	1,411	1,162
Reserves - Proven & Probable (net of royalties)		
Crude Oil (Mbls)	351	294 *
Natural Gas (Mmcf)	3,898	3,988 *
Present Value of Reserves (discounted at 15% before taxes)	$ 6,340,000	$ 6,325,000 *
Undeveloped Land Holdings		
Gross Acres	42,862	39,360
Net Acres	17,154	13,649

* January 31, 1993 evaluation

ABBREVIATIONS

Bbls	barrels
Bbls/d	barrels per day
Mbls	thousand of barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mmcf	million cubic feet
ARTC	means Alberta Royalty Tax Credit

REPORT TO THE SHAREHOLDERS

During the fiscal year ended July 31, 1994, the Company's revenue grew by 27% to $1,290,233, and cash flow increased by 39% to $840,716. All of these increases are attributed to a 21% increase in natural gas production and a 34% increase in sales price, which more than offset a decline in oil production rates and prices. The Company's balance sheet was strengthened as a consequence of an equity issue concluded in April 1994, at which time the Company's common shares were listed for trading on The Alberta Stock Exchange.

Many of the Company's exploration and development activities during the year were delayed due to the constraints of the public issue of shares and the shortage of seismic and drilling services. Successful drilling together with the tie-in of shut-in gas wells at Thorhild - Smoky Lake, the Company's main natural gas producing area, reversed production declines and replaced gas reserves. At Bruderheim, an important step-out well extended the Company's oil producing zone by over one kilometre, thereby setting up 5 infill development locations. Elsewhere, development drilling at the Wrentham prospect proved to be a disappointment as a consequence of an unsuccessful completion attempt. Despite intense industry competition, the Company was largely successful in acquiring the oil and gas rights necessary for its ongoing exploration objectives.

The Company remains committed to its objective of growth through exploration and development of its prospective landholdings. As a consequence of a low overhead and operating cost structure in its core areas, successful results will produce significantly increased cash flow. In the forthcoming year, the Company will increase drilling activity at Bruderheim to develop and extend its oil pool, while also pursuing exploratory drilling of similar geological features. Improvements in the efficiency of the Thorhild gathering system together with additional drilling success is forecast to increase natural gas production by at least 50%. Reversing the decline of oil production at Ronalane will be given high priority. New prospects which are more exploratory in nature will also be undertaken as services and funding become available.

In summary, the low risk projects in our core areas will provide significant growth in production revenue and cash flow, while any success with the exploration prospects will provide a substantial enhancement of asset value. I would like to take this opportunity to thank our dedicated staff and service companies for their efforts during the past year, our Board of Directors for their assistance and our shareholders for their continued support.

John M. Westlake

John M. Westlake
President and Chief Executive Officer

December 12, 1994

OPERATIONS REVIEW

DRILLING AND SEISMIC ACTIVITY

During the year ended July 31, 1994, the Company participated as to an average 28% working interest in the drilling of 12 wells with the following results:

Drilling Activity in the Year ended July 31

	1994		1993	
	GROSS (1)	NET (2)	GROSS (1)	NET (2)
EXPLORATION				
Oil	0	0	0	0
Gas	5	1.65	3	0.92
Dry	1	0.27	0	0
Service/Suspended	0	0	0	0
	6	1.92	3	0.92
DEVELOPMENT				
Oil	1	0.23	0	0
Gas	4	0.70	2	0.37
Dry	0	0	0	0
Service/Suspended	1	0.50	0	0
	6	1.43	2	0.37
TOTAL	12	2.35	5	1.29

Notes:

(1) "Gross" wells means the number of wells in which the Corporation has a working interest

(2) "Net" wells means the aggregate of the numbers obtained by multiplying each Gross well by the Corporation's percentage working interest therein.

The Company operated 8 of the foregoing wells. In addition, the Company retains a 7.1% after payout working interest in an exploratory gas well drilled under a farmout agreement.

Seismic activity during the year involved the purchase of 55 kilometres of existing seismic, and the participation in the acquisition of 62 kilometres of new data. These data helped to define the location of 5 of the foregoing wells.

PRODUCTION

During the fiscal year ended July, 1994, the Company increased its total natural gas production by 21% to a total of 514,933 Mcf from 424,241 Mcf. This volume is equivalent to a daily average of 1,411 Mcf for the year compared with an average of 1,162 Mcf/d in the prior year. Majority of the increase in volume resulted from the tie-in of a previously shut-in gas well to the Thorhild gas production facilities.

The Company's net crude oil production declined by 22% to a total of 13,655 Bbls, equivalent to a daily average of 38 Bbls. The reduction in volume is primarily due to the natural decline at the Ronalane Pool, which has been on production since June 1988.

LAND HOLDINGS

In the reporting year, the company expended $277,646 for the acquisition of 9,341 gross (6,140 net) acres of petroleum and natural gas rights from freehold owners and at Alberta Crown land sales. The average cost of the land acquisitions was $45 per acre. In addition to augmenting our holdings in existing core areas, land was acquired in several areas where new exploration prospects will be pursued in the forthcoming year.

Land Summary at July 31, 1994
(all lands are located in Alberta)

	GROSS (1) ACRES	NET (2) ACRES	ROYALTY (3) ACRES
UNDEVELOPED	42,862	17,154	800
DEVELOPED	21,360	4,729	2,000
	64,222	21,883	2,800

Notes:
(1) "Gross" refers to the total acres in which the Corporation has an interest.
(2) "Net" refers to the total acres in which the Corporation has an interest multiplied by the percentage working interest therein owned by the Corporation.
(3) "Royalty" refers to the total acres in which the Corporation has the right to receive a share of revenue as a royalty.

Seaton-Jordan & Associates Ltd., independent land consultants of Calgary, in a report dated November 9, 1994, evaluated the foregoing undeveloped land holdings at $1,350,242, an average of $79 per acre, based upon analysis of most current prices paid at public land sales for properties in the vicinity of the Company's land holdings.

ANALYSIS OF FINANCIAL AND OPERATING INFORMATION

Total production revenue for the fiscal year ended July 31, 1994 was $1,225,118 compared with $958,973 in the prior year. The combination of increased sales volume and prices of natural gas was the main contributor to revenue improvement. Natural gas sales continued the price increases experienced in 1993 until March 1994, consequently, the average fieldgate price received by the Company for sales of natural gas improved to $1.95 per Mcf from $1.45 per Mcf in the prior year. In contrast, the weakness in international crude oil prices depressed the wellhead price received by the Company for the sale of crude oil by 9% to an average of $17.54 per Bbl. For the year, the share of total production revenue provided by natural gas sales therefore increased to 80% from 66% in the prior year.

On a barrel of oil equivalent basis (BOE), utilizing 10 Mcf = 1 BOE, production and administrative expenses remaining essentially unchanged at $6.94 per BOE. The total of royalties net of ARTC paid to the Alberta Crown and others declined slightly as a percentage of gross production revenue from 8.5% to 8.3%. Netbacks, after royalties and operating costs, for natural gas increased to $1.33 per Mcf from $1.09 per Mcf. As a result of decreased volume, the netback for crude oil declined to $4.74 per Bbl from $10.27 per Bbl.

Cash flow for the year was up 39% at $840,716 compared to $603,039 in the previous year. This cash flow together with a partial contribution from an equity financing concluded in April 1994 was applied to capital expenditures of $1,331,000. The capital expenditures were directed to the following main categories (prior year's expenditures are indicated in brackets); drilling and completion $672,751 ($248,391), purchase of petroleum and natural gas rights $277,646 ($46,344) and equipment and pipelines $215,092 ($276,001). An increase in the number of wells drilled from 5 to 12 together with a higher average working interest accounts for much increase in total drilling and completion expenditures. Industry competition has caused land costs to escalate rapidly, consequently the costs incurred by the Company for its land acquisition have increased. The Company also increased the net acres acquired by 310% over the prior year.

The Company's working capital position improved dramatically to $499,425. The main reason for the improvement was the $1,023,562 in net proceeds from the issue of 1,161,500 common shares in April, 1994. As of July 31, 1994, the Company had no debt and an unused credit facility of $680,000 with a Canadian chartered bank.

PETROLEUM AND NATURAL GAS RESERVES

The Company's reserves were estimated as at August 1, 1994, by the independent petroleum engineering firm of Martin Petroleum & Associates of Calgary. The volumes and estimated present value of the Company's proved and probable reserves, as determined by Martin, are shown in the following table. The values are forecast after the payment of operating expenses, capital costs and royalties, but prior to the payment of income taxes and indirect costs such as general and administrative expenses.

Petroleum and Natural Gas Reserves and Net Pre-Tax Cash Flows
(Based on Escalating Price Assumptions)

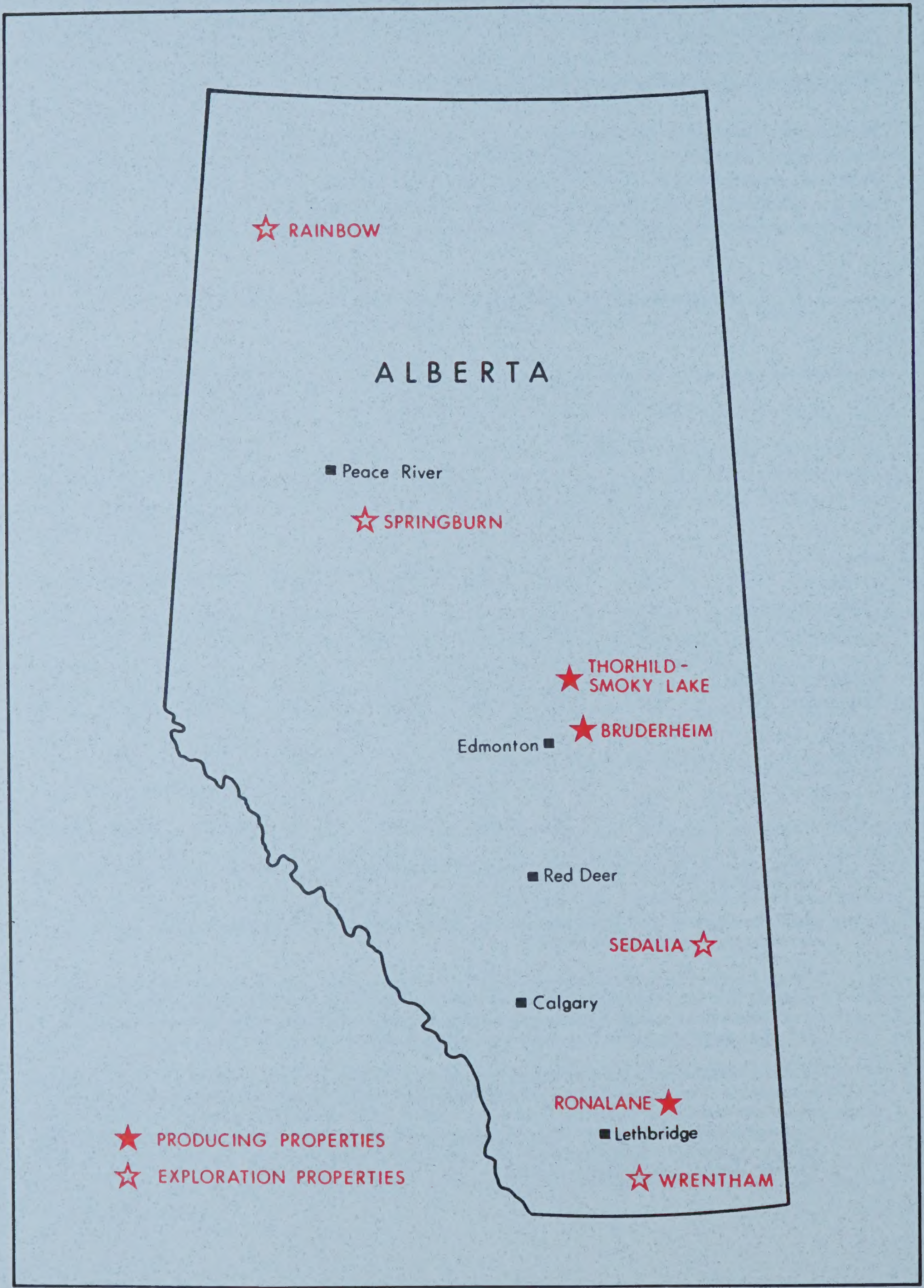
	Corporation's interest in reserves				Present worth of future net pre-tax cash flows			
	Crude Oil		Natural Gas		Discounted at			
	(Mbls)		(MMcf)		0%	10%	15%	20%
	Gross [1]	Net [2]	Gross [1]	Net [2]		(thousands)		
Proved [3]								
Producing	98	86	1,907	1,465	$3,895	$2,715	$2,400	$2,167
Non-producing	146	126	1,059	920	3,373	2,076	1,723	1,463
Total Proved	244	212	2,966	2,385	$7,268	$4,791	$4,123	$3,630
Probable Additional [4]	159	139	1,824	1,513	6,396	2,160	1,525	1,139
Total before ARTC	**403**	**351**	**4,790**	**3,898**	**$13,664**	**$6,951**	**$5,648**	**$4,769**
ARTC					1,665	809	692	617
Less risking of Probable Additional	80	70	912	757	3,644	1,194	846	637
TOTAL	**323**	**281**	**3,878**	**3,141**	**$11,685**	**$6,566**	**$5,494**	**$4,749**

(1) "Gross" means the total of the Corporation's working interest and/or royalty interest share before deducting royalties owned by others.

(2) "Net" means the total of the Corporation's working interest and/or royalty interest share after deducting the amounts attributable to the royalties payable to others.

(3) "Proved Reserves" means those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir, which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

(4) "Probable Additional Reserves" means reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.


RAINBOW
ALBERTA
Peace River
SPRINGBURN
THORHILD -
SMOKY LAKE
BRUDERHEIM
Edmonton
Red Deer
SEDALIA
Calgary
RONALANE
Lethbridge
WRENTHAM
PRODUCING PROPERTIES
EXPLORATION PROPERTIES

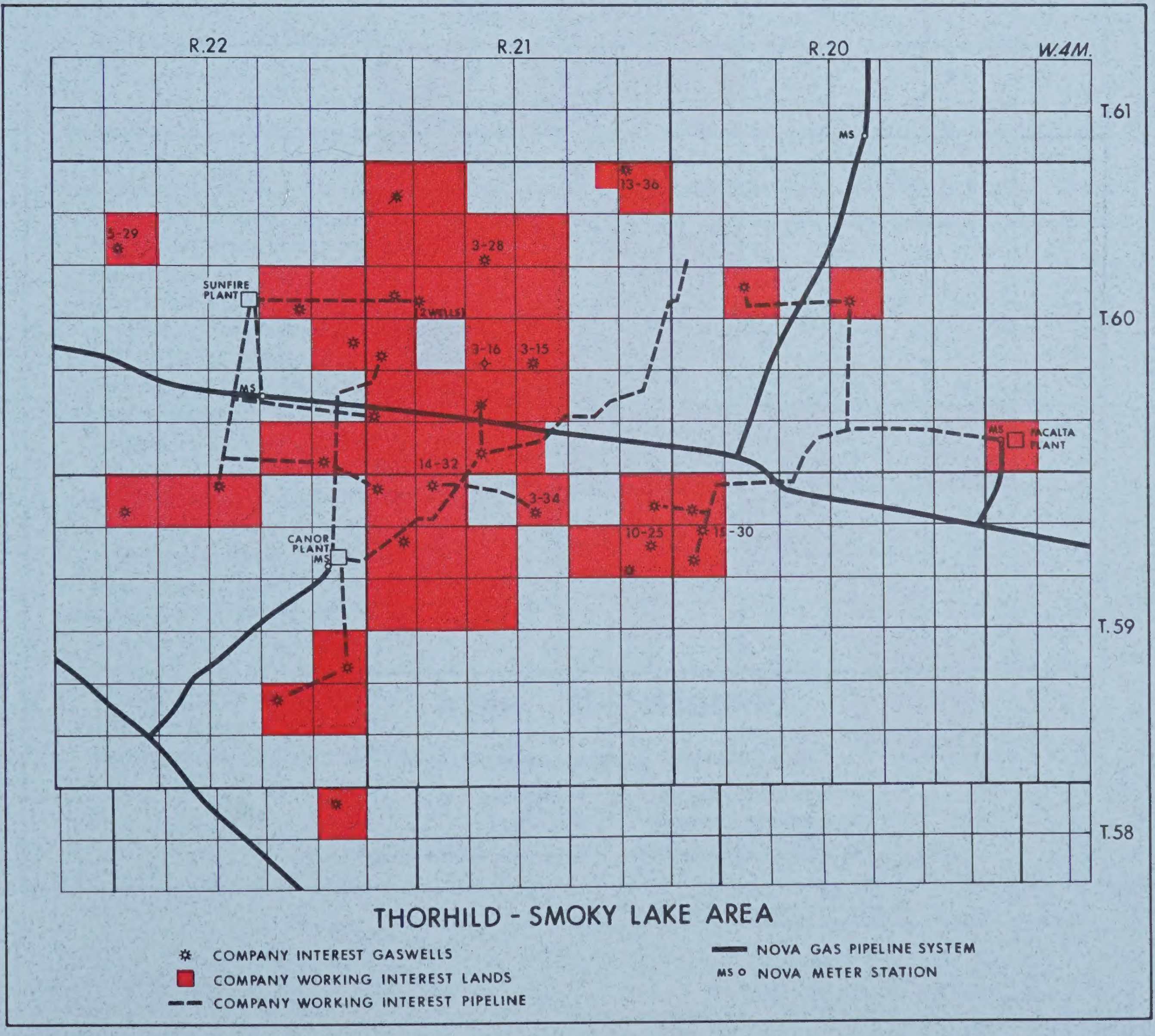
PROPERTY REVIEW

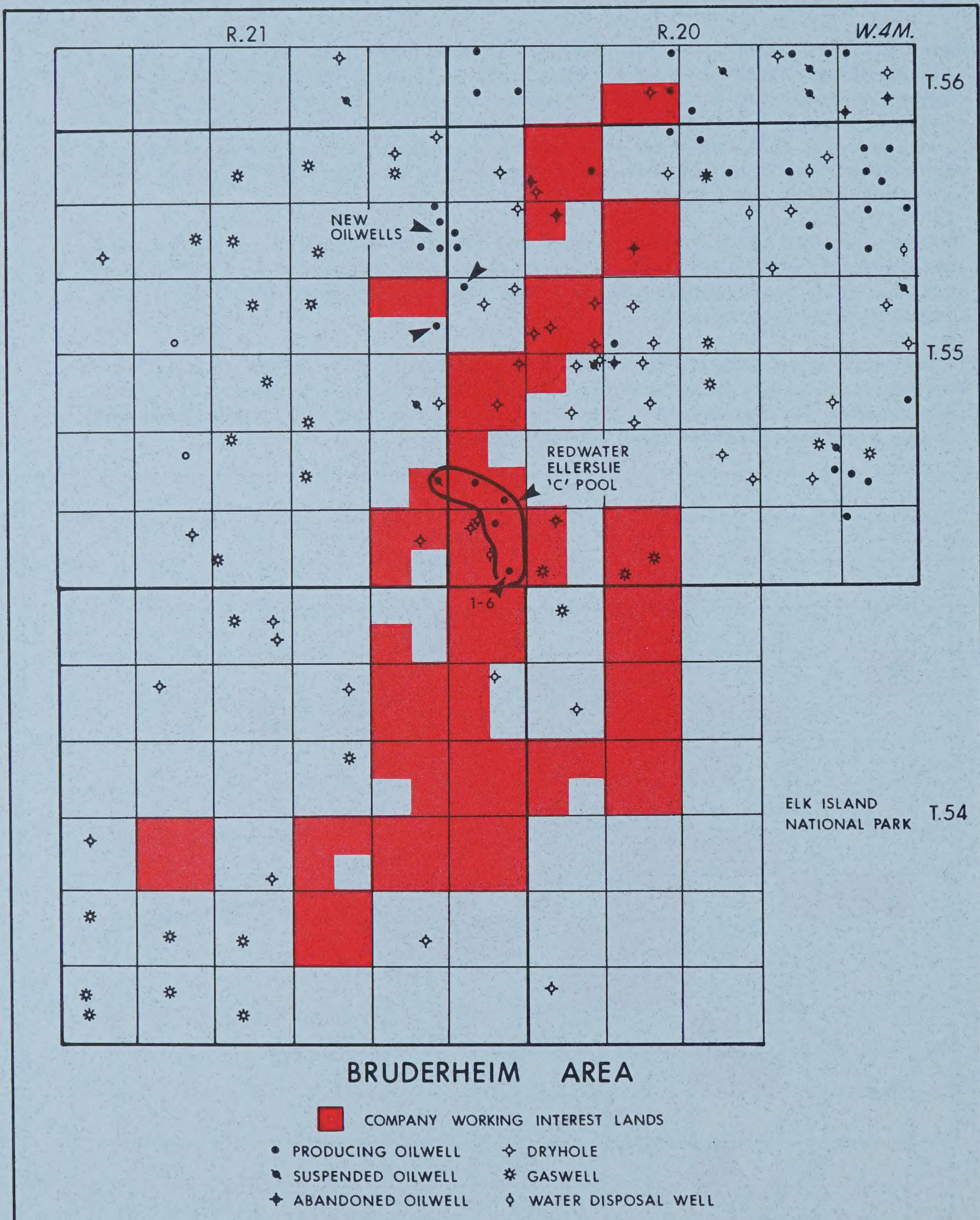
THORHILD - SMOKY LAKE AREA

Almost all of the Company's natural gas production is obtained from the Thorhild - Smoky Lake area, where the company has an average 20% working interest in 16 producing gas wells. The wells are connected via approximately 80 kilometres of Company owned pipelines to 3 separate processing facilities in which the Company has working interests. As at July 31, 1994, the company held an average of 24% working interest in 52.75 sections of Crown petroleum and natural gas rights totaling 33,760 acres. Approximately 54% of these lands remain undeveloped and will form the basis for the Company's ongoing exploration and development program.

During the year ended July 31, 1994, the Company participated for an average 30% working interest in 8 wells, resulting in 7 gas wells and 1 dry hole. One of these gas wells, 14-32 and two previously shut-in gas wells, were tied-in into the gathering system. These wells added an average of 307 Mcf/d to the Company's total daily gas production.

In the forthcoming year, a total of 8 additional wells are planned to be drilled in the area. Improvements to gathering systems are also planned to remove restrictions of capacity that have reduced the Company's production rates. The combination of drilling and improvement of facilities is anticipated to increase the Company's share of gas production to over 2,500 Mcf/d by mid 1995.





BRUDERHEIM AREA

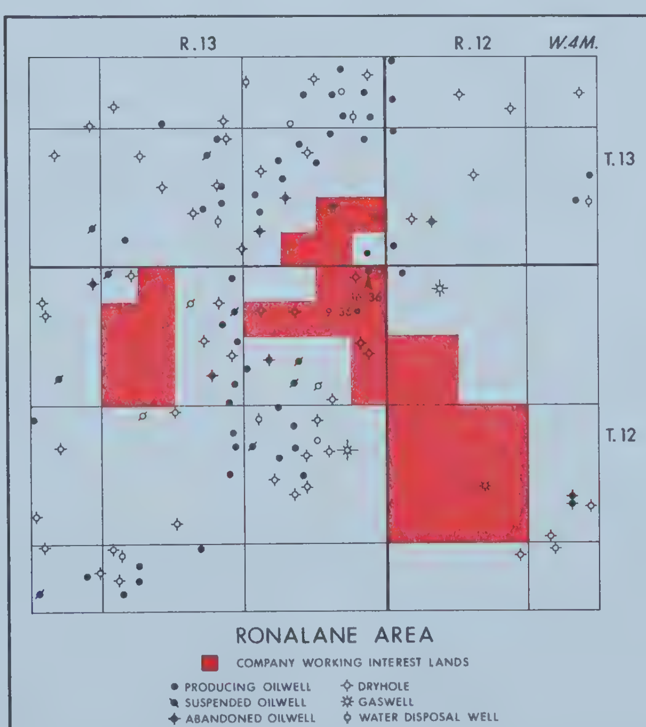
BRUDERHEIM

During the year, the Company participated with a 23% working interest in one well drilled adjacent to the Company's oil pool at Bruderheim. This well, 1-6, encountered oil in the same producing horizon as the pool and effectively extended the productive area by over 1 kilometre to the south. This well commenced production in June at approximately 50 Bbls/d of high gravity oil. Also in June, an existing well within the pool that had been producing since 1990 with increasing formation water production was reperforated at a higher level. Initial oil production was improved by over 100% and water influx reduced to a low level. Encouraged by these positive results, the Company plans to further develop the pool by drilling on 40 acre spacing. Based upon the limits of the pool defined by seismic data, up to 10 additional development wells could be drilled on the reduced spacing. Further drilling will also be undertaken to attempt to extend the pool to the northwest and south. It is anticipated that oil production from the pool will increase several fold as a result of the infill drilling. The impact on revenue will be more significant since the incremental production will give rise to lower overall operating costs per unit of production.

Within the vicinity of its oil production, the Company has acquired an average 25% working interest in 15,908 acres. These lands were acquired after the interpretation of over 400 kilometres of seismic data and offer the potential for a number of oil accumulations similar to the existing oil pool. Recent drilling activity by competitors to the north of our pool has resulted in several oil discoveries adjacent to some of the Company's land holdings. Further seismic acquisition and exploratory drilling is contemplated for these lands in the immediate future. Several exploratory wells will also be drilled to the south of our pool during the forthcoming year.

RONALANE

The Company's Ronalane pool has been producing since 1988 and its production has declined to a low level. The Company has a 57.5% working interest in the present production battery and would derive significant benefit from reduced operating costs due to additional oil production. In April 1994, the Company purchased Crown petroleum and natural gas rights adjacent to its existing production. These lands were located on the margin of our existing 3 dimensional seismic control and had positive indications for additional oil accumulations. Experience in this area has shown that 3-D seismic data is an absolute requirement for delineation of successful drilling locations. Consequently during the winter of 1994/95, the Company's existing data will be extended to cover these new acquired lands. Production in the immediate vicinity of our land holdings has been prolific with initial production rates frequently ranging from 100 to 500 Bbls/d of medium gravity crude oil. It is anticipated that at least one well will be drilled in the spring of 1995 to exploit the potential for a major increase in oil production.



RONALANE AREA

OTHER EXPLORATION AREAS

The Company is actively engaged in the exploration of several additional areas with significant crude oil and natural gas potential. These prospective areas were selected on the basis of the interpretation of seismic data from the Company's extensive data bank which currently exceeds 6,500 kilometres.

Rainbow

Company has a 50% working interest in 960 acres of land located within the Rainbow Field. Existing seismic data reveals several well locations with the potential for natural gas in the Slave Point formation and light gravity crude oil in the Keg River formation. The lands are offset, within 2 kilometres, by wells with prolific production from both zones. Reserves of natural gas in the order of 10 billion cubic feet are predicted for the Slave Point zone. Drilling of one well is planned for the first half of 1995.

Sedalia

The Company currently has a 100% working interest in 1280 acres of land located in East Central Alberta. Present seismic data shows these lands have multi-zone potential for both crude oil and natural gas at depths ranging from 200 to 1400 metres. At least one well will be drilled in the summer of 1995.

Springburn

The Company has a 52% working interest in 960 acres of land located southeast of Peace River. During the spring of 1994 a 3-dimensional survey was undertaken over these lands with excellent results. Three wells were drilled on these lands by others in the early 1980's and produced light gravity oil from the Slave Point and Granite Wash formations. These wells were subsequently abandoned and the petroleum and natural gas rights reverted to the Province of Alberta. However, the complexity of the structure revealed by the 3-D seismic data shows that all 3 wells were poorly located to exploit the full potential of the structure. If the reservoir development is favourable, recoverable reserves in excess of 500,000 Bbls of oil are possible. An initial exploratory well is planned for the winter of 1995.

Wrentham

During 1994, the Company participated in the drilling of an offset well to an existing heavy oil pool in Southern Alberta. The well successfully extended the pool onto our lands, however, subsequent stimulation to improve oil production rates caused formation water to breakthrough into the producing zone and the well has been suspended. The Company holds a 50% working interest in 640 acres of land surrounding this well. Recent increased demand for heavy oil has raised prices substantially. This positive development is encouraging and a second well is currently being considered for drilling in the summer of 1995.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SUNFIRE ENERGY CORPORATION

We have audited the consolidated balance sheet of Sunfire Energy Corporation as at July 31, 1994 and 1993 and the consolidated statements of income and retained earnings and changes in cash resources for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 1994 and 1993 and the results of its operations and the changes in its cash resources for the years then ended in accordance with generally accepted accounting principles.

Shannon Schroeder

CHARTERED ACCOUNTANTS

Calgary, Canada
October 25, 1994

SUNFIRE ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

July 31, 1994 and 1993

	1994	1993
	$	$
ASSETS		
CURRENT ASSETS		
Cash and term deposits	**618,885**	309,197
Accounts receivable (Note 2)	**614,197**	400,892
Prepaid expenses	**6,419**	5,627
Current portion of notes receivable (Note 3)	**10,200**	8,400
	1,249,701	724,116
NOTES RECEIVABLE (Note 3)	**10,071**	16,966
CAPITAL ASSETS (Note 4)	**4,749,610**	3,789,176
	6,009,382	4,530,258
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 5)	**710,752**	678,031
Current portion of lease obligations (Note 6)	**39,524**	48,540
	750,276	726,571
LEASE OBLIGATIONS (Note 6)		38,293
PROVISION FOR RESTORATION AND ABANDONMENT	**58,300**	57,100
DEFERRED INCOME TAXES	**200,800**	35,800
	1,009,376	857,764
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	**4,096,221**	3,072,659
RETAINED EARNINGS	**903,785**	599,835
	5,000,006	3,672,494
	6,009,382	4,530,258

See accompanying notes

Approved by the Board:

Peter W. Goodman, Director

John M. Westlake, Director

SUNFIRE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

YEARS ENDED JULY 31, 1994 AND 1993

	1994 $	1993 $
REVENUE		
Petroleum and natural gas sales	**1,225,118**	958,973
Less Royalties, net of tax credits	**(101,331)**	(84,235)
	1,123,787	874,738
Interest and other income	**166,446**	144,388
	1,290,233	1,019,126
EXPENSES		
General and administrative	**171,012**	184,409
Well operating expenses	**281,271**	233,028
Depletion	**369,000**	328,100
	821,283	745,537
INCOME BEFORE TAXES	**468,950**	273,589
DEFERRED INCOME TAXES (Note 8)	**165,000**	35,800
NET INCOME FOR YEAR	**303,950**	237,789
RETAINED EARNINGS BEGINNING OF YEAR	**599,835**	362,046
RETAINED EARNINGS END OF YEAR	**903,785**	599,835
NET INCOME PER SHARE		
Basic	**8.7¢**	7.6¢
Average common shares outstanding (Note 1e)	**3,479,360**	3,116,590

See accompanying notes

SUNFIRE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN CASH RESOURCES

YEARS ENDED JULY 31, 1994 AND 1993

	1994 $	1993 $
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net income for year	**303,950**	237,789
Items not requiring cash outlays		
Depreciation and depletion	**371,766**	329,450
Deferred income taxes	**165,000**	35,800
	840,716	603,039
Changes in other working capital elements		
Accounts receivable	**(213,305)**	(48,513)
Prepaid expenses	**(792)**	71
Accounts payable	**32,721**	13,122
	659,340	567,719
FINANCING ACTIVITIES		
Net proceeds from issue of common shares (Note 7b)	**1,023,562**	-
Repayment of lease obligations	**(47,309)**	(46,291)
	976,253	(46,291)
INVESTING ACTIVITIES		
Expenditures on oil and gas properties and equipment	**(1,331,000)**	(597,928)
Joint venture repayments		8,440
Notes receivable repayments net of current portion	**5,095**	2,679
	(1,325,905)	(586,809)
NET INCREASE (DECREASE) IN CASH DURING YEAR	**309,688**	(65,381)
CASH BEGINNING OF YEAR	**309,197**	374,578
CASH END OF YEAR	**618,885**	309,197
CASH FLOW FROM OPERATIONS PER SHARE	**24.2¢**	19.3¢

See accompanying notes

SUNFIRE ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1994

1. SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary Freeman Energy Ltd. All material intercompany balances, transactions and profits have been eliminated.

b. Joint operations

Substantially all of the company's exploration and production activities are conducted jointly with others and the accounts reflect only the company's proportionate interest in such activities.

c. Property and equipment

Oil and gas

The company follows the full cost method of accounting for oil and gas operations whereby all costs related to the exploration for and development of oil and gas reserves are capitalized. Such amounts include those related to acquisition of petroleum and natural gas rights, geological and geophysical exploration, lease rentals on undeveloped properties, drilling of wells and acquisition of production equipment. All such costs, excluding the cost of unproved properties of $667,956, are depleted on the unit-of-production method based upon estimated net proved reserves before royalties of oil and gas as determined by management. In calculating the units of production natural gas and crude oil reserves are converted to equivalent units based on the current sales value of each product. Gains or losses are not recognized on the disposition of properties except when significant dispositions of reserves are made.

The company's oil and gas properties are subject to a ceiling test under which the carrying value is limited to the future net revenue from production of estimated proved oil and gas reserves valued at year-end prices plus the lower of cost and estimated value of undeveloped properties less financing costs and income taxes. The application of this ceiling test resulted in no further depreciation or depletion.

Furniture and office equipment

Furniture and office equipment are recorded at cost and depreciated using the declining balance method at the following annual rates:

Furniture	20%
Computer equipment	30%
Computer software	100%

d. **Provision for site restoration and abandonment**

Estimated future site restoration and abandonment costs are provided for over the life of the proved reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, costs, technology and industry standards. The annual charge is included in depletion expense and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

e. **Per share data**

Cash flow from operations and net income per share are calculated based on the weighted average number of shares outstanding during the year. Fully diluted net income per share is not shown as there are no material dilutive factors.

2. ACCOUNTS RECEIVABLE

	1994	1993
	$	$
Trade	**481,230**	289,896
Related parties	**-**	2,273
Cash Calls	**14,760**	75,721
Alberta Royalty Tax Credits	**118,207**	33,002
	614,197	400,892

The company conducts business activities with entities which are related by common management essentially for the operation and exploration of oil and gas properties. These business activities with related parties are conducted under normal trade terms and/or contractual arrangements, and are expected to continue in the future. Related parties include the following entities:

Harlech Exploration Ltd. (a company controlled by the President)
Hi-Tech Exploration Services Ltd. (a company controlled by the President)
Gower Petroleum Ltd. (a company controlled by the President)

3. NOTES RECEIVABLE

	1994	1993
	$	$
Notes receivable	**20,271**	25,366
Less current portion	**(10,200)**	(8,400)
	10,071	16,966

Amounts due from participants in the Smoky Lake Natural Gas Program are unsecured, non-interest bearing, and repayable out of net income accruing to the participants.

4. **CAPITAL ASSETS**

	1994 $	1993 $
Petroleum and natural gas properties and equipment	**6,302,576**	4,806,464
Petroleum and natural gas equipment under capital lease	**-**	169,576
Furniture and office equipment	**30,300**	25,836
	6,332,876	5,001,876
Less accumulated depletion and depreciation	**(1,583,266)**	(1,212,700)
	4,749,610	3,789,176

Petroleum and natural gas properties and equipment have a tax basis of $3,071,000 at July 31, 1994.

5. **ACCOUNTS PAYABLE**

	1994 $	1993 $
Trade	**690,314**	646,947
Related parties	**2,609**	547
Cash calls	**17,829**	30,537
	710,752	678,031

6. **LEASE OBLIGATIONS**

	1994 $	1993 $
Finance contracts payable in monthly installments of $4,319 including principal and interest at 14% with terms not exceeding 3 months. Certain petroleum and natural gas equipment with a net book value of $127,600 has been pledged as security.	**39,524**	86,833
Less current portion	**(39,524)**	(48,540)
	-	38,293

Interest in the amount of $8,300 (1993 - $14,592) on the lease obligations has been charged to well operating expenses.

7. **SHARE CAPITAL**

a. **Authorized**

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares
Unlimited number of Class C, D and E preferred shares

b. **Issued**

	1994		1993	
	Shares	**Amount** **$**	**Shares**	**Amount** **$**
Class A	4,278,090	4,096,221	3,116,590	3,072,659

On April 8, 1994 the company issued 1,161,500 common shares at $1.00 per share for gross proceeds of $1,161,500. The public offering was sold by McDermid St. Lawrence Chisholm Ltd. (the "Agent") on a best-efforts basis pursuant to an agency agreement dated August 26, 1993. Share issue costs totaled $137,938 with net proceeds of $1,023,562. In connection with the offering the agent was granted a non-transferable option, expiring on April 8, 1995, to purchase up to 116,150 common shares at a price of $1.00.

8. DEFERRED INCOME TAXES

The provision for deferred income taxes differs from the result obtained by applying the combined Canadian federal and provincial corporate income tax rates of 44.34% (1993 18.84%) to net income before taxes. This difference arises from the following:

	1994	1993
	$	$
Income taxes at statutory rates	**208,000**	51,600
Add (deduct) the tax effect of:		
Non-deductible Crown Royalties and payments	**51,200**	15,000
Alberta Royalty Tax Credit	**(52,400)**	(10,300)
Resource allowance	**(38,800)**	(10,300)
Prior years' losses expired	**8,300**	-
Other	**(11,300)**	(10,200)
	165,000	35,800

At July 31, 1994, the company had $3,071,000 of tax pools available for deduction from future taxable income.

9. COMMITMENTS

Office premises leased on a month to month basis require minimum annual lease payments of $37,068 of which $7,440 will be recovered from space sub-leased to related and third parties.

10. REMUNERATION TO OFFICERS AND DIRECTORS

Direct remuneration to Directors and Officers of the company (2 individuals) totaled $134,988 for the year ended July 31, 1994 (1993 - $134,988).

The company capitalized $75,756 (1993 - $75,756) of the remuneration included above for the year as relating to the exploration and development of oil and gas properties.

11. CONTINGENCY

Freeman Energy Inc., a wholly-owned subsidiary of Sunfire Energy Corporation, has been named defendant in a legal action by its former landlord for termination of its lease. The action seeks the sum of $38,588 for arrears of rent and further damages in the sum of $192,942 representing the unexpired term of the tenancy. Freeman Energy Ltd. has delivered a Statement of Defense and Counterclaim in the amount of $25,000 alleging that the landlord had repudiated the lease.

From the facts known to date, it is the opinion of Freeman Energy Ltd. and its solicitors that the claim is defensible and the damages are exaggerated. No information is available at this time as to the possible outcome of the litigation and no communication has taken place with the plaintiff since June, 1988 when the last discovery took place.

NOTES

NOTES

CORPORATE INFORMATION

OFFICERS

John M. Westlake
President and Chief Executive Officer

Peter W. Goodman
Vice-President and Secretary

DIRECTORS

* Otto G. Demetz
Calgary, Alberta
Private Investor

* Peter W. Goodman
Cochrane, Alberta
Vice-President and Secretary of
Sunfire Energy Corporation

Ernest P. Koop
Calgary, Alberta
President of CEDA International,
a division of Enserv Corporation

* Christian Lemmer
Calgary, Alberta
President of Lemmer Spray Systems Ltd.

John M. Westlake
Calgary, Alberta
President and Chief Executive Officer of
Sunfire Energy Corporation

* *Member of Audit Committee*

CORPORATE AND REGISTERED OFFICE

1050, 801 - 6th Avenue S.W.
Calgary, Alberta T2P 3W2
Telephone: (403) 290-1785

AUDITORS

Shannon Schroeder
Calgary, Alberta

BANKERS

Hongkong Bank of Canada
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

EVALUATION ENGINEERS

Martin Petroleum & Associates
Calgary, Alberta

LEGAL COUNSEL

Bennett Jones Verchere
Calgary, Alberta

Code Hunter Wittman
Calgary, Alberta

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Trading Symbol SFE.A

SUBSIDIARY COMPANY

Freeman Energy Ltd.
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Montreal Trust
Calgary, Alberta

SUNFIRE ENERGY CORPORATION
1050, 801 Sixth Avenue S.W.
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T2P 3W2

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Facsimile: (403) 269-4349